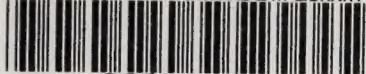


RAPPORT ANNUEL

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Alcohol and Gaming Commission of Ontario

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ANNUAL REPORT

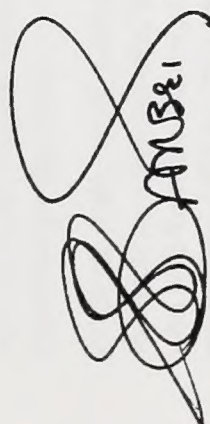
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TO: The Honourable Jim Watson, MPP
Minister
Ministry of Consumer and Business Services

FROM: G.R. (Randy) Barber
Chair
Alcohol and Gaming Commission of Ontario

I am pleased to present the 2003–2004 Alcohol and Gaming Commission of Ontario Annual Report.




G.R. (Randy) Barber | Chair

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Message from the Chair

This fiscal year has been exceptionally busy.

Substantial changes were made to the province's *Liquor Licence Act Regulations*. These revisions brought about some much needed streamlining of the liquor regulatory regime in Ontario and focused on both enforcement and customer service measures. (More details on these changes can be found under the Regulatory Updates section of the Annual Report).

On the gaming front, we continue to witness a decline in charitable gaming registrants and revenues. Recognizing this trend, staff from the AGCO continue to work with the various stakeholders in the charitable gaming area to develop new initiatives to stabilize and regenerate interest in this important gaming sector.

While all of this activity was taking place, we had the privilege to welcome a new minister, the **Honourable Jim Watson** who hails from our Nation's Capital - Ottawa, where he was mayor from 1997 to 2000. Appointed as Minister of Consumer and Business Services by **Premier Dalton McGuinty**, he will have the general responsibilities for the regulation of beverage alcohol and gaming in Ontario. Mr. Watson is the MPP for Ottawa West-Nepean.

Then on February 27, 2004, Minister Watson announced the appointment of **Jean Major** as Chief Operating Officer, Acting Chief Executive Officer and Registrar of the AGCO effective April 5, 2004. He replaces **Duncan Brown** who after five years as the AGCO's Chief Executive Officer (CEO) and Registrar became the CEO of the Ontario Lottery and Gaming Corporation. We warmly welcome Mr. Major who

was previously Executive Director of the Ontario Racing Commission and extend our thanks and good wishes to Duncan Brown in his new position.

I also want to sincerely thank all of the Members of the Board of the Alcohol and Gaming Commission of Ontario. The Board reflects the Ontario population in general with members representing all sections of the province, and a wide variety of occupations and professions.

During last fiscal year, Board members presided over more than 700 hearings (held all over the province) related to liquor and gaming matters. All of this meant travelling extensively throughout the province and holding public hearings in local communities. I believe the Board members conduct themselves and their responsibilities in the highest traditions of public service, and I congratulate them on their dedication and achievements.

For our part, it is and will remain the priority of the AGCO to effectively regulate the alcohol and gaming industries.



G.R. (Randy) Barber
Chair

Message from the Chief Executive Officer

Although my appointment as Chief Operating Officer, Acting Chief Executive Officer and Registrar of the Alcohol and Gaming Commission of Ontario became effective April 5, 2004, it is evident that this organization has had numerous achievements this past fiscal year. These achievements are a direct result of staff dedication and hard work - making our organization a special place to work. I want to ensure this continues.

To our customers, clients and stakeholders, we will continue to consult and work closely with you to improve all of our services so that the province's regulatory regimes for liquor and gaming are fairly administered and supportive of a vibrant business climate.

During this fiscal year, our Head Office front desk staff assisted more than 13,000 persons; and over 97,000 calls were handled assisting our clients with licensing and registration matters.

Of considerable interest is our website, www.agco.on.ca which was "hit" more than eight (8) million times during the fiscal year. The site now has the capacity to download many liquor- and gaming-related application forms. The most popular liquor-related application form is the Special Occasion Permit (SOP) form averaging around 3500 hits per month.

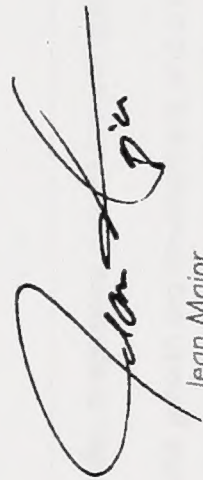
The AGCO Liquor Enforcement Branch continues to work closely with local police authorities in an effort to target licensed establishments identified as high priority. As a result, over 1200 Notices of Proposal (NOP) to review, suspend or revoke a liquor licence were issued during the fiscal year 2003/04.

And, "coinless gaming", otherwise known as "Ticket In/Ticket Out" slot machines were introduced at Casino Windsor and Casino Rama following field testing by the AGCO Electronic Gaming Branch. The "Ticket In/Ticket Out" slot machine system dispenses paper credit vouchers instead of coins. The paper credit vouchers can be redeemed at a cashier booth or can be transferred to another slot machine using the same technology.

We continue to work diligently with our stakeholder groups in the charitable gaming industry in an effort to support and stabilize this important sector. Some progress has been made including new initiatives allowing greater flexibility for advertising, staffing bingo events, the use of 'personal bingo verifiers' and streamlining the application and licensing processes. The Strategic Working Group on Bingo is focusing on longer term initiatives to maintain the viability of the bingo industry.

Likewise, the break open ticket (BOT) industry has established a Strategic Working Group to rejuvenate this sector. A number of new ideas have been implemented this year including permitting incentive payments to retailers to increase sales. More initiatives are expected to be launched in the coming year.

Overall, the past fiscal year has been particularly busy with many changes introduced and implemented. I look forward to continuing this path of success in the year ahead.



Jean Major
A/Chief Executive Officer

Overview and Key Activities

The Alcohol and Gaming Commission of Ontario (AGCO) is a quasi-judicial regulatory agency that reports to the Minister of Consumer and Business Services. Established February 23, 1998 under the *Alcohol and Gaming Regulation and Public Protection Act*, 1996, the AGCO is responsible for administering the:

- *Liquor Licence Act*
- *Gaming Control Act*, 1992; and
- *Wine Content and Labelling Act*, 2000
- Lottery Licensing Order-in-Council, 2688/93 (as amended)
- *Liquor Control Act [Section 3(1)b, e, f, g and 3(2)a]*

Vision:

- To ensure the honesty, integrity and social responsibility of the alcohol and gaming industries through effective regulations which are fair, responsive and in the public interest.

Mandate:

- To regulate the sale, service, and consumption of beverage alcohol to promote moderation and responsible use; and
- To ensure that casino and charitable gaming is conducted in the public interest, by people with integrity, and in a manner that is socially as well as financially responsible.

Mission:

- To promote a supportive business climate through clear rules, streamlined procedures and options that allow for increased flexibility on the part of the industry.
- To ensure a balance between revenue-generation, economic growth and development, and critical regulatory controls.
- To emphasize front-line activities and make client service and satisfaction an integral part of operations.
- To ensure that fairness to all partners and stakeholders is a major consideration in the development, application and enforcement of programs, policies and procedures.

Key Activities

Regulating Alcohol and Gaming Sectors

- ✦ Licensing and regulating Ontario's establishments that sell or serve beverage alcohol, as well as administering the Special Occasion Permit program, delivered through designated Liquor Control Board of Ontario retail stores.
- ✦ Licensing and regulating liquor delivery services; Ontario beverage alcohol manufacturers, their agents and agents of foreign manufacturers; and brew-on-premise facilities.
- ✦ Authorizing manufacturers' retail stores, which includes on-site and off-site winery retail stores, on-site distillery retail stores and brewery retail stores, and Brewers Retail Inc. stores ("The Beer Store").
- ✦ Registering commercial suppliers and gaming employees of charitable gaming events, casinos, charity casinos, and slot operations at racetracks.
- ✦ Administering, in partnership with municipalities, the regulatory framework governing the issuance of charity lottery licences (e.g., bingo, raffle, and break open ticket events).
- ✦ Licensing games of chance at fairs and exhibitions.
- ✦ Approving rules of play or change to rules of play for games of chance conducted and managed by the Ontario Lottery and Gaming Corporation.
- ✦ Excluding persons from accessing gaming premises in the province of Ontario pursuant to the *Gaming Control Act, 1992* and its regulations.

Inspecting and Monitoring

- ✦ Inspecting and monitoring licensed establishments to ensure compliance with the *Liquor Licence Act* and regulations.
- ✦ Inspecting and monitoring casinos, charity casinos, slot operations at racetracks and charitable gaming events/facilities for compliance with the *Gaming Control Act, 1992*, its regulations, and licensing and registration requirements.
- ✦ Approving and monitoring internal control systems, surveillance and security systems, and other operational systems for casinos, charity casinos and slot operations at racetracks for compliance with all regulatory requirements.
- ✦ Testing, approving and monitoring slot machines and gaming systems.

Adjudication

- ✦ Conducting hearings on proposed disciplinary actions under the *Liquor Licence Act* and *Gaming Control Act, 1992*.
- ✦ Conducting hearings on Registrar's refusal to licence or register under the *Liquor Licence Act* and *Gaming Control Act, 1992*.
- ✦ Conducting compliance order hearings and hearings on the wine authority's refusal to grant an approval or suspend, revoke or refuse to renew an approval to use the terms, descriptions and designations established by the wine authority under the *Vintners Quality Alliance Act, 1999*.
- ✦ Conducting public interest hearings to determine eligibility for, or revocation of liquor licences or additions to liquor licensed premises where the public files objections in response to a public notice advising of the request for a licence or an amendment thereof.

Organizational Structure

The Alcohol and Gaming Commission's organizational structure is based on functional responsibilities with internal 'checks and balances' on the exercise of the agency's powers and authorities.



Board of Directors

The Alcohol and Gaming Regulation and Public Protection Act, 1996 constitutes the AGCO as a corporation without share capital and requires that the AGCO shall have a Board of Directors of at least five (5) members. Board members are appointed by the Lieutenant Governor, through Order-in-Council, for a three-year term which may be renewed.

| | FULL-TIME CHAIR | G.R. (Randy) Barber | February 1997 to March 2005 |
|--|-----------------------|---------------------------|----------------------------------|
| | | | |
| | | | |
| | PART-TIME VICE CHAIRS | Elaine Kierans, bilingual | May 1998 to May 2004 |
| | | Joel Kuchar | February 1997 to September 2004 |
| | | John Rossetti | May 1996 to April 2003 |
| | PART-TIME MEMBERS | Dianne M. Axmith | April 2003 to April 2006 |
| | | Stephanie Ball | September 1997 to September 2003 |
| | | Jo-Anne Best | June 2001 to July 2004 |
| | | Kirsti Hunt, bilingual | March 1997 to April 2005 |
| | | John M. Johnson | April 2003 to April 2006 |
| | | Patricia E. McQuaid | April 2003 to April 2006 |
| | | Eleanor Meslin | November 2000 to February 2005 |
| | | Vaughan Minor | April 1998 to April 2004 |
| | | Bruce R.H. Monteith | April 2003 to April 2006 |
| | | Jerry J. Moskaluk | April 2003 to April 2006 |
| | | R.T. (Ted) Salci | September 2001 to April 2004 |
| | | Jeffrey Steiner | November 2000 to November 2003 |
| | | Terence Young | March 2000 to March 2003 |

Board of Directors Continued

In addition to the Board's governance role, the Board conducts appeal and disciplinary hearings and prepares decisions under the *Liquor Licence Act* and the *Gaming Control Act, 1992*. The Board also conducts public interest hearings to review applications for liquor licences or additions to licensed premises where written objections to the issuance of a licence have been filed.

Alcohol-Related Hearings for Fiscal Year

2002/03 2003/04

HEARING TYPE BASED ON NOTICE OF PROPOSAL ISSUED BY THE REGISTRAR OF ALCOHOL AND GAMING

| | | |
|----------------------------|-----|-----|
| Review Application | 75 | 44 |
| Revoke | 125 | 128 |
| Suspend | 364 | 472 |
| Refuse to Transfer/Renew | 17 | 15 |
| Conditions Removed | 11 | 5 |
| Conditions Attached | 0 | 1 |
| Other (disqualify premise) | 3 | 2 |

Total Number of Hearings

(NOT INCLUDING HEARINGS THAT WERE ADJOURNED/CONTINUED AFTER MARCH 31ST, 2004 OR WHERE HEARINGS HAVE BEEN HELD AND DECISION NOT ISSUED).

595 667

Alcohol-Related Alternative Dispute Resolution for Fiscal Year

2002/03 2003/04

Number of Public Interest Meetings

105 96

Gaming-Related Hearings for Fiscal Year

2002/03 2003/04

Total Number of Hearings

18 14

2003-2004 Operational Overview

Licensing & Registration

Number of Liquor Licensees and Permits Issued

| For Fiscal Years | 2002/03 | 2003/04 |
|--|---------------|---------------|
| Liquor Sales Licensed Establishments | 17,010 | 17,095 |
| Brew-on-Premise Facilities | 600 | 610 |
| Liquor Delivery Services | 209 | 340 |
| Manufacturers | 160 | 170 |
| Manufacturers' Representatives | 524 | 557 |
| Total | 18,503 | 18,772 |
| Alcohol Beverage Advertisements Reviewed | 2,927 | 233 |
| Special Occasion Permits Issued | 66,395 | 65,663 |

The total number of alcohol beverage advertisements reviewed decreased significantly (92%) compared to the previous year as liquor sales licensees and liquor manufacturers are no longer required to obtain Registrar of Alcohol and Gaming approval of their advertisements; however, advertising must comply with the regulations under the Liquor Licence Act and the AGCO Advertising Guidelines.

Lottery Licences issued by AGCO

| For Fiscal Years | 2002/03* | 2003/04* |
|-------------------------|--------------|--------------|
| Bingo | 2,044 | 1,894 |
| Break Open Ticket (BOT) | 540 | 463 |
| Raffle | 175 | 156 |
| Social Gaming Events | 98 | 94 |
| Total | 2,857 | 2,607 |

LOTTERY LICENSING

A total of 2,607 lottery licences were issued by the AGCO to eligible charitable or religious organizations to conduct and manage gaming events, including bingo, break open ticket and raffle events. The total number of lottery licences issued decreased by approximately 9% compared to the previous year primarily due to an overall decline in all lottery events issued by the AGCO.

* Municipalities issue most lottery licences.

2003-2004 Operational Overview *Continued*

Number of Gaming Registrants in the Province

CHARITABLE GAMING REGISTRATION

The overall decrease of charitable gaming registrants of approximately 8% compared to the last fiscal year can be attributed to the overall gaming environment in Ontario which is considerably more complex and competitive. Charitable gaming faces competition and limitations from a number of different sources, including *Criminal Code (Canada)* requirements, changing demographics, technological advances, and other gaming products.

| For Fiscal Years | 2002/03 | 2003/04 |
|--|---------------|---------------|
| CHARITABLE GAMING | | |
| Bingo Halls Operators | 133 | 125 |
| Gaming/Equipment Suppliers & Manufacturers | 128 | 123 |
| Break Open Ticket Seller | 6,108 | 5,713 |
| Gaming Assistants | 4,076 | 3,659 |
| Sub - Total | 10,445 | 9,620 |
| CASINOS AND SLOT MACHINE FACILITIES | | |
| Gaming Suppliers | 2,931 | 2,871 |
| Gaming Employees | 17,819 | 19,011 |
| Sub - Total | 20,750 | 21,882 |
| Total | 31,195 | 31,502 |

CASINOS AND SLOT MACHINE FACILITIES

The increase in casino- and slot machine-related registrants of approximately 5% compared to the last fiscal year can be attributed to the expansion of gaming facilities in Ontario.

Investigation, Enforcement and Compliance

AGCO's Liquor Enforcement continues to work with local enforcement authorities to target licensed establishments identified as high risk. To help facilitate and expedite targeted and random inspections of licensed establishments, new handheld technology has been introduced to enhance the quality and review of inspections while decreasing the turnaround time on reporting inspection results. As a result of Liquor Enforcement's continued efforts, combined with the efforts of Licensing & Registration and Legal Services, over 1,200 Notices of Proposal to review, suspend or revoke a liquor licence were issued during fiscal year 2003/2004.

AGCO's Casino Enforcement Units investigated over 7,800 occurrences at the casinos, charity casinos and slot operations at racetracks during this fiscal year, in addition to assisting local police with non-gaming related investigations.

Casinos, charity casinos and slot operations at racetracks are subject to regulatory requirements and AGCO oversight to maintain public confidence that gaming facilities are operated with honesty and integrity. These requirements include registration of suppliers and employees, and approval of rules of play, gaming equipment, gaming management systems, slot machines, chips and tokens, internal control systems, surveillance and security systems, credit, record keeping, and recording of large cash transactions.

The AGCO, in its role as regulator, has facilitated the introduction of new games and coinless gaming at Ontario's gaming facilities. Customers may enjoy a first-rate gaming entertainment experience as well as have confidence that AGCO's approval process and oversight provides for a gaming industry that operates with honesty and integrity.

- ◇ Over 35,600 electronic gaming devices, including slot machines, were tested and inspected this fiscal year to ensure they were not susceptible to cheating and met acceptable standards of randomness. This is an increase of approximately 5% from last fiscal year.
- ◇ Two "Ticket In/Ticket Out" slot machine systems were reviewed and approved by the AGCO for field trial at some of Ontario's gaming facilities. "Ticket In/Ticket Out" allows casino operators to better serve their customers. The "Ticket In/Ticket Out" slot machine system dispenses paper credit vouchers instead of coins. The paper credit vouchers can then be redeemed at a cashier booth or can be inserted into another machine offering "Ticket In/Ticket Out". The first phase of "Ticket In/Ticket Out" system went live at Casino Windsor on July 15, 2003 followed by Casino Rama on March 17, 2004.

2003-2004 Operational Overview *Continued*

- ◇ The rules of play for four new games were reviewed and approved by the AGCO at the request of casinos wishing to offer their patrons new games: two side bets to the game Blackjack (Lucky Ladies and Perfect Pairs), Progressive Blackjack and Niagara Hold'em.
- ◇ The Mega Bucks wide area progressive system games introduced at the charity casinos last fiscal year are now linked to Ontario's three commercial casinos.
- ◇ Ontario gaming operators continue to replace old slot machine technology with new. AGCO tested and approved for field trial various types of storage media for game software, more complex bonus games and reel games with video bonus game features.
- ◇ With the expansion of Western Fair Racetrack Slots from 307 slot machines to 750 slot machines, the AGCO tested and approved the additional slot machines for patron play prior to the October 8, 2003 grand opening. As well, AGCO Electronic Gaming Branch completed pre-opening inspections and approval of all 200 slot machines scheduled for patron play at the new Grand River Racetrack which opened to the public on December 6, 2003.

Ontario Gaming Facilities

| Charity Casinos | No. of Slots | No. of Tables | Location | Open to Public |
|---------------------------------|--------------|---------------|------------------|----------------|
| Brantford Charity Casino | 452 | 55 | Brantford | Nov. 19/99 |
| Great Blue Heron Charity Casino | 432 | 50 | Port Perry | May 5/00 |
| Point Edward Charity Casino | 452 | 37 | Point Edward | Apr. 20/00 |
| Sault Ste. Marie Charity Casino | 451 | 16 | Sault Ste. Marie | May 23/99 |
| Thousand Island Charity Casino | 452 | 18 | Gananoque | Jun. 22/02 |
| Thunder Bay Charity Casino | 448 | 17 | Thunder Bay | Aug. 30/00 |

2003-2004 Operational Overview *Continued*

Ontario Gaming Facilities

| Commercial Casinos | No. of Slots | No. of Tables | Location | Open to Public |
|--------------------|--------------|---------------|---------------|---|
| Casino Niagara | 2,738 | 138 | Niagara Falls | Dec. 9/96 |
| Casino Rama | 2,347 | 116 | Orillia | Jul. 31/96 |
| Casino Windsor | 3,288 | 108 | Windsor | Interim: May '94 Permanent: Jul. 29/98 |

| Slots at Racetracks | No. of Slots | Location | Open to Public |
|-----------------------------|--------------|--------------|------------------|
| Clinton Raceway | 100 | Clinton | Aug. 26/00 |
| Dresden Raceway | 100 | Dresden | Apr. 20/01 |
| Flamboro Downs | 752 | Dundas | Oct. 13/00 |
| Fort Erie Racetrack | 1,206 | Fort Erie | Sept. 11/99 |
| Georgian Downs | 401 | Barrie | Nov. 29/01 |
| *Grand River Raceway | 200 | Elora | Dec. 6/03 |
| Hanover Raceway | 100 | Hanover | Feb. 21/01 |
| Hiawatha Horse Park | 452 | Samia | May 10/99 |
| Kawartha Downs Raceway | 380 | Peterborough | Nov. 24/99 |
| Mohawk Raceway | 750 | Milton | Aug. 12/99 |
| Rideau Carleton Raceway | 1,250 | Ottawa | Feb. 18/00 |
| Sudbury Downs Raceway | 331 | Sudbury | Nov. 28/99 |
| Western Fair | 750 | London | Sept. 30/99 |
| Windsor Raceway | 750 | Windsor | Dec. 18/98 |
| Woodbine Raceway | 1,710 | Toronto | Mar. 29/00 |
| Woodstock Raceway | 100 | Woodstock | Jun. 22/01 |

*New slot machine gaming facility

Operational Efficiencies and Highlights

Bingo Review

The AGCO continues its work with the Bingo Strategic Working Group in an effort to assist the charitable bingo sector to remain viable in a complex and competitive environment. The group is comprised of charitable and industry association representatives and it has proposed initiatives to introduce flexibility to the charitable gaming regulatory framework for bingo. The group has been instrumental in developing new options for the bingo industry throughout the years such as:

- ❖ Electronic Funds Transfer and Consolidated Trust Account options to minimize the administrative and banking burdens for charities;
- ❖ Single Licensing Option to streamline the application and licensing process;
- ❖ Flexibility for advertising, removing the AGCO pre-approval requirement;
- ❖ Options for staffing bingo events and payment of "personal bingo verifiers"; and
- ❖ Changes to games such as the Super Jackpot and Table Board Bingo.

The Strategic Working Group continues to work with the AGCO on introducing new initiatives, and is now focusing on longer-term initiatives to maintain the viability of the bingo industry.

Break Open Ticket Review

The break open ticket industry established a working group similar to the one for the bingo industry in an effort to rejuvenate the charitable break open ticket sector. This working group meets regularly to discuss issues of concern and to work together to consider options to maintain the viability of the industry and to assist in the growth of the industry.

In the past year the working group introduced a number of initiatives aimed at increasing sales and maintaining the competitiveness of break open tickets. These initiatives include options to: expense BOT dispensers to assist in accessing new retail environments, and an option to provide an incentive payment to their retailers to increase sales.

The BOT Working Group also initiated the development of a number of pilot initiatives including new products which will be launched in the coming year.

AGCO Training Unit

OPP members assigned to the Investigation and Enforcement Bureau's Training Unit are specialized in games of chance and are certified as Trainers. Members provide expert evidence for court cases and advice to AGCO staff and the AGCO Board on rules of play and casino games.

2003-2004 Operational Overview

Continued

Members also provide gaming training to AGCO staff, and specialized cheat-at-play detection training to Bureau members and officials from other gaming jurisdictions across North America. The training facility, which offered training for 52 individuals this fiscal year, is equipped with gaming tables, slot machines and a video surveillance system used to instruct in video taping requirements for court presentation.

First Nations Gaming

In 1998, the government approved a First Nations lottery-licensing framework that delegates licensing authority comparable to that of municipalities to individual First Nations. Negotiations have concluded with 31 interested First Nations having been granted lottery-licensing authority comparable to municipal governments in terms of game types and prize levels.

Customer Service

Over 37,900 customers were able to easily navigate through our integrated voice messaging system during this fiscal year. AGCO's voice messaging system was enhanced last year to improve staff efficiencies and better serve our customers. As part of our service delivery program, the AGCO staff continues to provide clients with personal service through our Customer Service Unit. Customer Service staff provided over 97,000 customers with assistance regarding licensing and registration and handled approximately 13,000 customers at AGCO's head office front desk.

Special Occasion Permits

The Special Occasion Permits (SOPs) are required for the legal sale, service and consumption of liquor in any unlicensed premises. If an individual or an organization plans to sell or serve liquor at any event in any location other than a private place, a licensed establishment or catered event, a SOP is required.

The AGCO is responsible for overall oversight and, together with the local police, the enforcement of the program which includes the inspection of SOP events. Liquor Control Board of Ontario (LCBO) staff issue permits from approximately 340 of its 600 plus retail stores under AGCO authority.

In August 2003, the AGCO implemented a new protocol for large SOP events. The new policy is intended to mitigate public safety issues and prevent tragedies such as those that occurred in the United States where it appears overcrowding led to many deaths and hundreds injured at facilities where liquor is served. As well, this new policy addresses problems from large events held in the past in Ontario that include: permitting intoxication, promoting immoderate consumption and permitting removal of liquor (statutory offences). In most cases, these issues arise from lack of security measures in place to properly monitor the patrons.

All SOP applications with a capacity of 5,000 or greater are now pre-approved by the AGCO. Applicants are required to submit supporting documentation that would include, for example, security plans, detailed site map, exact location of proposed licensed area, etc. Depending on the size of the

event and potential risk to the public, the application may be refused, approved and/or approved with terms and conditions.

The liquor regulatory regime in Ontario is focused on public safety and the responsible sale and service of liquor. Carefully controlled sale and service of liquor contributes to the safety and concerns of those attending large-scale community events.

On-Site Winery Retail Stores Located Outside Designated Viticultural Areas

In September 2003, the Registrar of Alcohol and Gaming amended the terms and conditions for on-site winery retail stores located outside designated viticultural areas. The change provided emerging grape growing regions with greater flexibility to supplement their grape production. It also helps enhance the development of these regions and further strengthen the base of wine production in Ontario.

Starting with the 2003 grape harvest year (September 1st to August 31st) and continuing until the 2006 harvest year, wineries located on at least five acres of planted grapes may source a higher percentage of grape products from outside their local county or district but within the Province of Ontario.

Regulatory Update

The Wine Content and Labelling Act, 2000

On September 23, 2003, an amendment to the Regulations under the *Wine Content and Labelling Act, 2000* was filed to reduce temporarily the minimum Ontario grape content requirement for each bottle of wine from 30% to 10%. The regulatory amendment was implemented to assist the wine industry cope with the unexpected reduction in the 2003 grape harvest resulting from severe weather conditions during the winter of 2002-2003.

At the same time, the Registrar of Alcohol and Gaming amended the terms and conditions for on-site retail store authorizations to permit wineries to use grape or grape product from outside Ontario, provided the wineries qualify for an "import usage cap". All qualified wineries with on-site retail store authorizations were permitted to manufacture and sell wines in the stores made with imported grape or grape product in accordance with the 10% Ontario grape content requirement.

Both of these changes came into effect for the 2003 harvest year. Wineries using imported grape or grape product must import their grapes or grape product by August 31, 2004. All wine made by blending Ontario grapes with imported grapes or grape product must be bottled before February 1, 2005.

Ontario Regulation 719 made under the Liquor Licence Act

The following are some of the highlights of the regulatory amendments to Ontario Regulation 719 approved by the provincial government in June 2003. The amendments undertake to strengthen and better target enforcement measures while at the same time enhance customer service relating to licensing, and sale and service of liquor in this Province.

- ◇ Modernize regulations related to the sale and service of liquor in tiered seats at stadiums.
- ◇ Reduce compliance burden by allowing liquor sales licensees to make business decisions related to retention of food records, equipment, storage, menus, and house policies that are consistent with the *Liquor Licence Act* and its Regulations.
- ◇ Standardize record retention schedules prescribed.
- ◇ Eliminate restriction on serving size for spirits. It is a statutory responsibility of licensees to ensure responsible sale, service and consumption of liquor.
- ◇ Prohibit employees of liquor sales licensees to offer free liquor to patrons.
- ◇ Strengthen regulations to ensure "unlawful gaming" is not permitted on liquor licensed premises.
- ◇ Enhance enforcement while providing better customer service by amending provisions regarding transfer applications for liquor sales licences.

Performance Measures

The 2003/2004 end results for performance goals established for the agency were all on target.

| PERFORMANCE GOAL | PERFORMANCE MEASURE | 2003-2004 TARGET AND COMMITMENT |
|---|---|--|
| CONSUMER PROTECTION: Provide for high standards of consumer protection, public safety and business practices. | Strive to be the best jurisdiction in North America for consumer protection and safety. | Appropriate resources were allocated to assist local enforcement with priority gaming and alcohol compliance matters. Overall, 95% of requests from local enforcement agencies were addressed and 100% of high priority concerns were responded to. |
| CUSTOMER SATISFACTION: Respond to the public's need for efficient service that gives value for money. | Satisfied Customers. | Monitored and assessed 100% of complaints received and took appropriate measures to eliminate systemic and operational problems and satisfactorily resolve 90% of complaints related to service. |

Financial Performance

The Alcohol and Gaming Commission of Ontario (AGCO) remits all revenues collected to the government's consolidated revenue account, and operates within a separate budget allocation contained in the Ministry of Consumer and Business Services' printed estimates. For the fiscal year ending March 31, 2004, the AGCO managed all operating expenditures within its budget allocation.

2003/2004 Fiscal Year: Revenues and Expenditures

Revenues

| For Fiscal Year | April 1, 2002 to March 31, 2003 | April 1, 2003 to March 31, 2004 |
|-----------------|---------------------------------|---------------------------------|
| Fees and Levies | \$567,193,825 | \$524,170,000 |
| Total | \$567,193,825 | \$524,170,000 |

Expenditures

| For Fiscal Year | April 1, 2002 to March 31, 2003 | April 1, 2003 to March 31, 2004 |
|---------------------------------|---------------------------------|---------------------------------|
| Salaries and Benefits | \$31,799,644 | \$33,726,295 |
| Other Direct Operating Expenses | \$9,807,062 | \$8,404,905 |
| Less Recoveries | (\$5,234,689) | (\$5,249,402) |
| Total | \$36,372,017 | \$36,881,798 |

Audit

The AGCO is subject to Ministry of Consumer and Business Services review and audit. In addition, the AGCO is subject to Provincial Audit and additional audits that the Minister may require.

Gaming: Legal Framework

Criminal Code of Canada

The *Criminal Code of Canada* (the "Code") establishes what types of gaming activities are legal, and the provinces are assigned responsibility for operating, licensing and regulating legal forms of gaming.

Part VII of the Code prohibits gaming in general, while Section 207 (1) allows for a number of exceptions to the general prohibition. Specifically, it permits "lottery schemes" provided that they are:

- ❖ "Conducted and managed" by the province in accordance with any law enacted by that province;
- ❖ "Conducted and managed" by a licensed charitable or religious organization provided that the proceeds of the lottery scheme are used for a charitable or religious purpose; and
- ❖ "Conducted and managed" by a licensed board of a fair or exhibition or by an operator of a concession leased by that board.

"Lottery schemes" are defined under the Code but do not include: three-card monte, punch board or coin table; book-making, pool selling or the making or recording of bets; and games operated through a computer, video device or slot machine, unless the lottery scheme is managed and conducted by the province (Sec. 207(4)).

Only the government of a province can conduct and manage a lottery scheme involving dice, slot machines or other computer devices.

Gaming Control Act, 1992

The *Gaming Control Act, 1992* (formerly the *Gaming Services Act*), which was proclaimed in February of 1993, provides for the regulation of gaming operations, suppliers and gaming assistants/employees of casinos, charity casinos, slot machine facilities and charitable gaming events.

Order-in-Council 2688/93 (as amended)

Order-in-Council 2688/93 (the "OIC") provides that charitable organizations may be licensed by either the Registrar appointed under the *Gaming Control Act, 1992* (the "Registrar") or, depending on the type of charitable gaming event and the value of prizes to be awarded, a municipal council, to conduct and manage gaming events. The OIC outlines terms and conditions that apply to lottery licences. The OIC also provides that the Registrar may attach additional terms and conditions to any licences he or she issues, and that municipal councils may attach terms and conditions to licences they issue provided they do not conflict with those of the Registrar.

Gaming: Legal Framework Continued

In order to qualify for a lottery licence, an organization must have a "charitable object or purpose". Charitable object or purpose is defined at common law and under the OLC as any object or purpose relating to:

- ❖ The relief of poverty;
- ❖ The advancement of education;
- ❖ The advancement of religion; or
- ❖ Any other purpose beneficial to the community.

The AGCO estimates money spent annually by the public on charitable gaming province-wide at approximately \$1.6 billion. Licensed charitable gaming in Ontario benefits thousands of local community charitable organizations. The AGCO estimates that charitable organizations in Ontario raised approximately \$246 million by holding licensed lottery events.

2003 Estimate of Province-Wide Charitable Gaming Revenues

| | Gross Wager | Net Revenues | Charity Profit |
|--------------------|------------------------|----------------------|----------------------|
| Bingos | \$1,044,000,000 | \$241,000,000 | \$119,000,000 |
| Break Open Tickets | \$360,000,000 | \$119,000,000 | \$46,000,000 |
| Raffles | \$239,000,000 | \$143,000,000 | \$81,000,000 |
| Total | \$1,643,000,000 | \$503,000,000 | \$246,000,000 |

Authority for Lottery Licensing

Municipalities are partners with the AGCO in issuing lottery licences.

The Order-in-Council provides municipalities with licensing authority for:

- ❖ bingo events, including table board bingo, with prizes of up to \$5,500;
- ❖ media bingo events with prizes up to \$5,500;
- ❖ break open tickets for local organizations;
- ❖ raffles up to \$50,000 in prizes; and

Gaming: Legal Framework Continued

- ♦ bazaar lotteries which include: wheels of fortune with a maximum bet of \$2.00, raffles not exceeding \$500, and bingo events up to \$500.

The Registrar of Alcohol and Gaming is the licensing authority for:

- ♦ bingo events over \$5,500 in prizes; super jackpot bingo events; progressive bingo game events;
- ♦ social gaming events (i.e., table game event held in conjunction with a social event);
- ♦ raffles over \$50,000;
- ♦ break open tickets sold in conjunction with other gaming events;
- ♦ break open tickets sold by organizations with a provincial mandate;
- ♦ fairs and exhibitions; and lotteries held in unorganized territories.

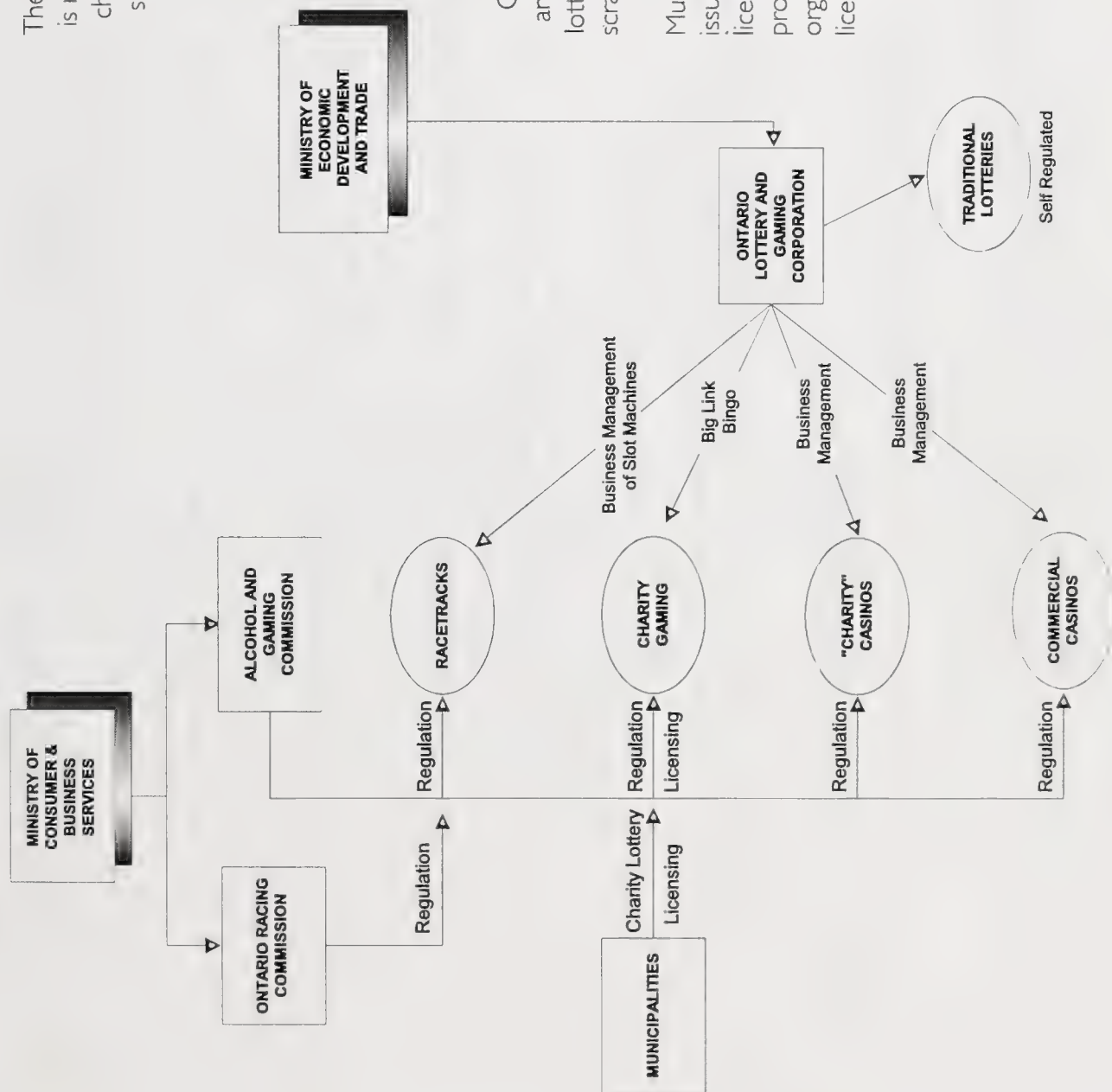
The AGCO assists municipalities in exercising their authority by establishing the terms and conditions for each type of licence, providing direction regarding determining eligibility of organizations for licensing, as well as providing assistance with compliance and enforcement. Compliance staff handle many inquiries from municipalities seeking guidance on the interpretation of licensing policies and terms and conditions. In addition, compliance staff provide information and training sessions for municipalities, licensing officers, charities and suppliers.

First Nations Lottery Licensing

In 1998, the government approved a First Nations lottery-licensing framework, which delegates authority comparable to that of municipalities to individual First Nations. An Order-in-Council (OIC) is issued to each participating First Nation. The OIC provides First Nations with authority to issue licences to religious and charitable organizations to conduct lottery schemes.

Gaming: Legal Framework Continued

Ontario Gaming Relationships



The Alcohol and Gaming Commission of Ontario is responsible for the regulation of casinos, charity casinos and slot machine facilities (i.e., slot operations at racetracks).

In accordance with the *Criminal Code of Canada* and the *Ontario Lottery and Gaming Corporation Act, 1999*, the Ontario Lottery and Gaming Corporation (OLGC) is responsible for the "management and conduct" of the gaming operations at commercial casinos, charity casinos, slot machine facilities and the linked "Big Link Bingo" game played at charity bingo halls. The OLGC is also responsible for the regulation and business management of all traditional lottery games such as "Super Seven", "6/49" and scratch and win type tickets.

Municipalities are partners with the AGCO in issuing lottery licences – the majority of lottery licences are issued by municipalities in the province – primarily to religious and charitable organizations for bingo and break open ticket licences.

Alcohol: Legal Framework

Liquor Licence Act

The *Liquor Licence Act* establishes the licensing and regulating regime for the sale and service of beverage alcohol in Ontario (except for retail sale to the public by the Liquor Control Board of Ontario).

Various classes of licences and permits are established including:

- ♦ licence to sell beverage alcohol;
- ♦ licence for brew-on-premise facilities;
- ♦ licence for liquor delivery service;
- ♦ manufacturers' licence;
- ♦ licence to represent a manufacturer of beverage alcohol; and
- ♦ special occasion permits for the sale and service of beverage alcohol on special occasions. For example, cash bars at fundraising events, weddings and receptions.

The *Liquor Licence Act* also establishes the basic rules for sale and service of beverage alcohol:

- ♦ no sale or service to persons under the age of 19;
- ♦ no sale or service to persons who appear to be intoxicated;
- ♦ no sale of beverage alcohol before 11:00 a.m. or after 2:00 a.m. (unless otherwise stipulated);
- ♦ no sale of illegal beverage alcohol; and
- ♦ where beverage alcohol may be consumed (residence, licensed premises, private place).

The *Liquor Licence Act* and regulations provide for an inspection and enforcement regime to ensure that licensees and permit holders are in compliance with the law and regulations relating to the sale and service of beverage alcohol.

Liquor Control Act [Section 3(1)b, e, f, g and 3(2)a]

Effective July 3, 2001, the Alcohol and Gaming Commission of Ontario assumed responsibility from the LCBO for the following:

1. To control the delivery of liquor to the public;
2. To authorize manufacturers of beer and spirits and wineries that manufacture Ontario wine to sell their spirits, beer or Ontario wine in stores owned and operated by the manufacturer or winery and to authorize Brewers Retail Inc. to operate stores for the sale of beer to the public;

Alcohol: Legal Framework Continued

3. To control and supervise the marketing methods and procedures in stores owned and operated by manufacturers and wineries referred to in number 2;
4. To determine, subject to the *Liquor Licence Act*, the municipalities within which stores owned and operated by manufacturers and wineries referred to in number 2 shall be established or authorized and the location of such stores in municipalities;
5. To establish conditions, subject to any regulation, with respect to authorizations for stores owned and operated by manufacturers and wineries referred to in number 2; and
6. To establish conditions, subject to any regulations, with respect to authorizations granted with respect to the delivery of liquor to the public.

Wine Content and Labelling Act, 2000

The *Wine Content and Labelling Act, 2000* specifies that an Ontario winery may manufacture and sell wine in the province using imported grape or grape products. If an Ontario winery uses imported grapes or grape products in manufacturing its wine, the content of each bottle of wine manufactured by the winery must be no less than 30% Ontario grapes or grape product.

On September 23, 2003, an amendment to the Regulations under the *Wine Content and Labelling Act, 2000* was filed to reduce temporarily the minimum Ontario grape content requirement from 30% to 10%.

